

PHILADELPHIA MULTIFAMILY HOUSING HUB NEWS



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Encarnacion Loukatos, Hub Director

Thomas Langston, Editor

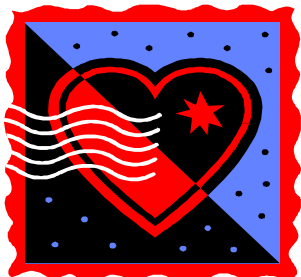
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www.hud.gov/local/shared/working/r3/mfhsg.cfm?state=pa

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Refinancing Section 202 Projects

Notice H 04-21, Amendments to Notice H 2002-16: "Underwriting Guidelines for Refinancing of Section 202 and 202/8 Direct Loan Prepayments," was issued on November 12, 2004. The revisions apply to Section 202 direct loan refinancings, and Multifamily Accelerated Processing (MAP) and Traditional Processing (TAP).



The goal of the revisions is to make FHA mortgage insurance financing more available to Section 202 sponsors. This is to be accomplished through revised FHA underwriting guidelines, revised maximum developer fees, and revised limits on surplus distributions. The Notice also adds provisions on mandatory meals and property tax abatement.

Some of the specific revisions contained in the Notice are as follows:

Tax Abatement- If the amount of the tax abatement is fixed and runs the entire term of the mortgage (i.e., long term), the real estate tax expense reported on the HUD Form 92264 must be the actual amount of the taxes the project will pay. However, if the abatement is short term or varied, the amount of the additional mortgage will be amount that the abated taxes will amortize over the term of the abatement.

Developer's Fees- The maximum developer's fees shall be the lesser of 15% of the acceptable LIHTC (Low Income Housing Tax Credit)

program, or the maximum fee allowed by each State's LIHTC program. If LIHTC is not used as a source of equity, the developer's maximum fee is also 15% of acceptable development costs.

Annual Distribution- The maximum annual distribution from surplus cash is 6% of the owner's equity that was paid at the refinancing of the project. Other Government funds (i.e., HOME, CDBG, etc.), will not be considered owner's equity. LIHTC equity is not "other Government funds."

Meals Service- The Hub Director may permit meals to be served in refinanced Section 202 projects if: 1) 10 meals were provided before September 30, 1991 (i.e., prior to Housing Notice 92-34) and have been continuously provided since that date, 2) income and expenses from the meals service are not included in the underwriting of the refinancing, and 3) the meals service has proved self-sustaining based on a review of the project's financial statements.

To learn more about Section 202 refinancing, you can obtain a copy of the Housing Notice at: www.hudclips.org.

Distribution of Tax Credit Proceeds

A Final Rule was published in the December 14, 2004 Federal Register regarding the distribution of tax proceeds. The rule adopts as final an interim rule that allowed the proceeds from syndication of low-income housing tax credits and historic tax credits to be treated in the same manner as loan or grant funding provided through federal, state, or local government agencies. A copy of the Federal Register can be obtained at: www.hudclips.org/sub_nonhud/cgi/date_14run.cgi.

REAC Tech. Reviews & Database Adjustments

There are two processes available to challenge a physical inspection score—technical reviews and database adjustments. The criteria for technical reviews and database adjustments are different. Requests for technical reviews must be submitted separately from requests for database adjustments.



An owner has 30 calendar days to review the physical results and determine if any material errors occurred in the inspection (which if corrected would result in a significant improvement in the overall score), and to request a technical review of the property's physical inspection results.

Some examples of technical review items are: building data errors; unit count errors; or non-existent deficiency errors. REAC, however, will not consider the following for a technical review: disagreements over the severity of a defect, or deficiencies that were repaired or corrected during or after the inspection.

All requests for technical reviews must include relevant documentation to sufficiently support the request such as written materials, dated photographs, and dated videos. If REAC's evaluation determines that an objectively verifiable and material error has been reasonably documented by the owner, it will either undertake a new inspection, correct the inspection report, or issue a new score.

A request for a technical review must be submitted to the following address, along with a copy to the Hub Director or the Performance-Based Contract Administrator (PBCA):

U.S. Dept. HUD, Real Estate Assessment Center,
Attn: PASS Technical Reviews, 1280 Maryland
Avenue, S.W., Suite 800, Washington, DC, 20024,
1-888-0245-4860.

Similarly, owners must request database adjustments in writing to REAC, Attn: PASS Database Adjustment, along with a copy to the Hub Director or PBCA, within 45 days of the report's issuance. Database adjustments include: local conditions and exceptions (allowed by city codes); ownership

issues (roads/sidewalks owned by the city, or fencing/retaining walls owned by adjoining properties); and adverse conditions beyond the owner's control (deficiencies caused by natural disaster or third party).

The following do not qualify for a database adjustment: deficiencies noted during the inspection that were corrected during or after the inspection; deficiencies caused by the residents; and circumstances addressed in the technical review.

REAC will not accept any database adjustment requests without appropriate documentation. Examples include written materials from the local fire marshal or building code official, photographs with the date that reflect the item inspected, and videos that include the date and specific location.

Multifamily Housing Pays for Itself

In the National Association of Home Builders' November 2004 "Multifamily Market Outlook" report, it was reported that in a typical market area, multifamily housing pays for itself within a few years as ongoing benefits accumulate faster than ongoing costs. This is because typical apartments generate more than enough revenue to pay for current local government expenses in a given year.



According to Apartment Finance Today (Projects 2004), the report averaged taxes and local government spending based on data from nearly 88,000 local governments. In the first year, an average 100-unit project would generate \$5.3 million in local income, \$630,000 in taxes and other revenue for local governments, and 112 local jobs. Annually, thereafter, the same project would bring in \$2.2 million in local income, \$384,000 in taxes and other revenue, and 47 jobs.

Enforcement of Automation Rule

The enforcement of the Automation Rule (i.e., the requirement that owners of subsidized projects submit accurate data for housing assistance payments electronically through TRACS), is a critical component of the Secretary's initiative to significantly reduce subsidy payment errors. The Office of Multifamily Housing Programs has posted the Automation Rule Information Sheet, which details owner and contract administrator compliance requirements and the potential for the interruption of subsidy payments for noncompliance on the following RHIIP (Rental Housing Integrity Improvement Project) website: www.hud.gov/offices/hsg/mfh/trx/trxdocs.cfm.



PA and NJ Market Studies

The November 2004 issue of U.S. Housing & Market Conditions provided 3rd quarter market data on Pennsylvania and New Jersey, as well as a focus study on Newark, NJ (see www.huduser.org/periodicals/ushmc/fall04/USHMC_04Q3.pdf). The following are some of the facts discussed in the report:

Pennsylvania: PA permitted 4,252 units- 68% more than in 2003; Philadelphia continued to be one of the region's most active markets among the metropolitan areas, authorizing 5,100 units; rental vacancy rates have increased dramatically in the suburbs of Philadelphia because of the large numbers of new units entering the market (the first significant apartment construction in years); there was an overall vacancy rate for Class A garden apartments in the Philadelphia Metro., Area of 9.5% as of Sept. 30, 2004- an increase of 6.5% from 2003; current vacancy rates of 28% in Bucks Co. and 18% in Montgomery Co. have pushed the overall rate in the Philadelphia suburbs to 13%; vacancy rates in Bucks and Montgomery Cos. are expected to stabilize at less than 3% after five new apartment complexes (1,100 units) come on line; and in the Center City Philadelphia sub-market, overall vacancy rates for Class A high-rises rose from 9% in September 2003 to 10% in September 2004 with the entrance of 300 new units.

New Jersey: Multifamily housing construction activity continued to be strong with a 34% increase in permit activity (13,186 units); monthly rents increased by less than 1% to \$1,015 per month in Central NJ and \$1,315 in Northern NJ; and the overall rental vacancy rate declined to 3.3% in Central NJ and 4.5% in Northern NJ.

Newark, NJ: The rental vacancy rate in the city is 6%, as compared to only 3.4% in the surrounding suburbs; permits in the metro. area (Essex, Morris, and Union Cos.) decreased 3.8% to 2,322 units in the first 9 mos. of 2004 compared with the same period last year; 2-4 unit buildings accounted for more than 50% of the permits; the rental housing supply increased by more than 600 units a year in both 2002 and 2003; most new construction has been in the Ironbound section but activity is spreading- rents (without utilities) for these units are \$1,200- 2BR and \$1,500- 3BR; outside the city new 1BR rents average \$1,650; and several significant housing activities are underway in the city- a 63-unit office conversion, 600 bed Rutgers resident hall, 234-unit UMDNJ student apartment building, and conversions of two vacant office buildings to 540 rental units.

Duct Cleaning

Heating, ventilation, and air conditioning (HVAC) systems have been shown to act as a collection source for a variety of contaminants that have the potential to affect health, such as mold, fungi, bacteria, and very small particles of dust. The removal of such contaminants from a building's HVAC system should be considered as one component in an overall plan to improve indoor air quality.



Research by the U.S. EPA has demonstrated that HVAC system cleaning may allow systems to run more efficiently by removing debris from sensitive mechanical components. Clean, efficient systems are less likely to break down, have a longer life span, and generally operate more effectively than dirty systems.

The most effective way to clean air ducts and ventilation systems is to employ source removal methods of cleaning. This requires a contractor to place the system under negative pressure, through the use of a specialized, powerful vacuum. While the vacuum draws air through the system, devices are inserted into the ducts to dislodge any debris that might be stuck to interior surfaces. The debris can then travel down the ducts to the vacuum, which removes it from the system and the building.

There are two main types of vacuum collection devices: (1) those mounted on trucks and trailers, and (2) portable units. Both types of equipment will clean to the standards of the National Air Duct Cleaners Association (NADCA).

Frequency of cleaning depends on several factors, not the least of which is the preference of the owner. Some of the things that may lead an owner to consider more frequent cleaning include: smokers in the building, pets that shed high amounts of hair and dander, water contamination or damage to the building or HVAC system, residents with allergies or asthma, after renovations or remodeling, and prior to occupancy.

If you decide to have your ducts cleaned, interview as many local contractors as you can. Ask them to perform an on-site system inspection and give you an estimate. Make sure the company is a member in good standing of the NADCA.

To find out more about the duct cleaning, visit the NADCA's website at: www.nadca.com.

Rural and Non-Metro Areas

The October 2004 issue of Research Works reported on HUD's delivery of its programs to rural and non-metro areas. The report used the 2000 Census to look at the constituents that HUD serves in these areas. According to the census, approximately 55.4 million people, or 20% of the U.S. population, reside in non-metropolitan areas. Rural America's population is growing and becoming more diverse than ever before.



Nationally, the supply of affordable apartments for low-income renters in rural America has been shrinking for several years, and according to the Housing Assistance Council, the trend shows no signs of slowing. Rural renters make up 35% of non-metro cost-burdened households, while comprising less than 25% of all non-metro households. America's 5.5 million rural rental households experience some of the country's most significant housing problems. Rural rental households have lower incomes than owners and are more likely to live in substandard housing. Approximately 12% of non-metro renters live in either moderately or severely inadequate housing, compared to 6% of non-metro owners.

While progress has been made in improving the quality of housing in rural America, problems still persist. According to the 2003 American Housing Survey Indicators, 1.4 million- or 6.7%- of non-metro units are either moderately or severely substandard. Minorities in rural areas are among the poorest and worst housed groups in the entire nation, with disproportionately high levels of inadequate housing conditions. Hispanic rural households are twice as likely to live in substandard housing than all other rural households combined. Rural African-Americans have particularly high substandard housing rates, as nearly 20% live in substandard housing.

HUD is at work to help alleviate this problem. While the U.S. Department of Agriculture's Rural Housing Service takes the lead in rural housing and community development work at the federal level, HUD also plays an important complementary role. We carry out our work in rural and non-metropolitan areas through a number of programs such as: Rural Housing and Economic Development Program, the State Community Development Block Grant Program, and Section 8 rental assistance provided to Rural Housing Service projects.

If you would like to read the complete Research Works report, it can be accessed at the following website:

www.huduser.org/periodicals/Researchworks.html.

Exterior House Coatings

According to Textured Coatings of America, there is a new exterior coating that can make exterior walls of residential buildings virtually impregnable to water and high winds. These coatings, which contain heavy concentrations of high-strength resins, have been used on airport control towers, bridges, and schools for years.



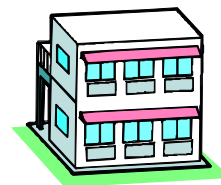
Unlike paint, the dense epoxy coatings add rigidity to exterior surfaces. Of particular benefit from the coating is stucco walls which tend to absorb water and allow moisture to penetrate the surface, often creating a mildew problem. The effect of the product is like coating a building in breathable plastic. In addition, the product reflects the sun's rays and results in lower cooling expenses.

Although the coatings look like paint (and come in dozens of colors), they require specialized sprayers and professional coating techniques.

More details can be obtained from the Textured Coatings of America's website at: www.texcote.com.

Closings

The following closings occurred during the months of December and January: *Insured*— PA: Hillside Assisted Living, Grayson Court, and Crestview; and NJ: Avon Hills; *Section 202 Initials*— PA: Philip Murray House II, and Bausman Street; and NJ: Community Hope VI; *Section 202/811 Finals*— PA: Ken Crest PA 2001; NJ: Sturgis Consumer Home and Bridgewater Twp.



Correction



The telephone number for, Nancy Bolster, the RHIPP Help Desk Coordinator for the Newark Program Center is: (973) 622-7900, Ext. 3534.